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SUBJECT: AGRICULTURAL AND RURAL SECTOR HIGHLIGHTS, JUNE-JULY 2009

1. SUMMARY:

1A. Difficulties faced by foreign investors in securing cocoa beans for domestic processing could compromise Ghana's investment attractiveness and the credibility of the GOG's stated goal of increased value-added processing of agricultural products.

1B. Food security is at the top of President Mills's agenda for agricultural sector development. One major remaining issue is rice production. Some experts suggest that strengthening Ghana's position as rice producer is contingent upon improving productivity. Some media reports suggest that tariff protection may also be needed.

1C. President Mills declared government support for cocoa, sheanut, and coffee farmers while announcing new incentives aimed at attracting youth to agriculture.

1A. COCOA SECTOR: FACING FALSE CHOICES?

12. The Minister of Finance and Economic Planning Dr. Kwabena Duffuor warned of potential losses in investor confidence associated with cocoa bean supply constraints for local processing. COCOBOD was asked by the Finance Ministry to reassure cocoa processors regarding the supply of cocoa beans. With new investment from firms including Archer Daniels Midland and Cargill, Ghana's total cocoa processing capacity is poised to reach 500,000 tons in the near term.

13. Increased domestic processing capacity will soon outstrip the supply of "light crop" beans, which are not exported. Existing processing plants have already faced difficulties in securing an adequate volume of cocoa beans for processing. The GOG's responsiveness to lobbying by U.S. investors to make good on promises of a steady supply is a positive sign of the government's commitment to domestic processing. A new arrangement contemplates the expansion of existing capacity, and a mechanism for the sale of top grade beans for local processing.

14. Cocoa exports account for about 40 percent of Ghana's foreign exchange earnings. Cocoa provides the second largest source of hard currency to Ghana, bringing in over a billion dollars in export earnings. Even more importantly, COCOBOD's monopoly on buying and selling cocoa beans makes it the government's single largest revenue-earner, acting in place of a broader tax system. COMMENT: Allocating more beans for domestic processing increases net economic benefits to Ghana nationally, but compromises COCOBOD's ability to raise hard currency by exports of the raw beans. END COMMENT. U.S. investor Cargill reported to econoffs that they are commissioning an economic analysis of the multiplier effects of increased domestic processing (vice export of unprocessed beans) for submission to the

GOG.

¶15. The illicit movement of lower quality Ivorian cocoa into Ghana (driven by higher local prices for beans) could cause a reduction in the premium prices paid for Ghanaian cocoa beans on the international market. In an effort to curtail smuggling of low-grade cocoa beans into Ghana from neighboring countries, COCOBOD will increase surcharges for the delivery of low-grade cocoa beans.

¶16. Duffuor called for an increase in extension services to the cocoa sector to accomplish the national goal of producing one million tones of cocoa bean by 2011. With its improved efforts at management of black pod disease, COCOBOD is optimistic about Ghana's 2009 cocoa crop.

¶B. FOOD SECURITY AND AGRICULTURE PRODUCTION

¶17. The GOG is working to enhance food security in Ghana. Specific effort to boost soybean and rice production is focused on the Fumbisi Valley, Naga and Tono regions, based on the high quality soil and climate. The GOG is providing funds for land preparation, seed supply, fertilizer, and harvesting. The project is expected to benefit 3,000-4,000 farmers.

¶18. Local rice producers blame trade liberalization for further impoverishing small-scale domestic food producers, caused by the import of cheap rice from abroad. Agricultural unions have called for the imposition of high tariffs on imported rice to reduce rice imports and increase demand for local rice. NOTE: Post has no further information regarding the proposed tariffs. END NOTE.

¶19. Agricultural unions are also demanding government subsidies to reduce the costs of agricultural production. AP reported that unions are blaming rice sector woes on the "harmful effects [sic] of U.S. policy on Ghana's rice-growers." COMMENT: In fact, U.S. rice accounts for only a quarter of Ghana's rice imports, with larger shares by major producers such as India, China and Thailand. U.S. rice is relatively expensive and seen as a high-quality product by Ghanaian consumers. END COMMENT.

¶10. The GOG has encouraged more Ghanaians to "grow what they eat and eat what they grow," while also encourage local production and consumption of rice. The GOG states that higher tariffs would not solve the issue, but agrees that subsidized inputs were needed to reduce the costs of growing rice locally. In the meantime, the GOG has prepared a bill for Parliament requiring all government institutions to procure locally produced rice.

¶11. International agricultural experts (such as the International Food Policy Research Institute) suggest that low efficiency compromises Ghana's competitiveness as a rice producer. Ghana's rice mills are ten percent below industry standards in terms of productivity.

¶C. BETTER LIVING THROUGH FARMING

¶12. The GOG seeks to make agriculture more attractive to Ghanaian youth, who in general appear more attracted to white-collar professions. In September, the government announced a GHC 10.7 million program to accomplish this goal. The plan's goal is to support youth groups in planting 14,000 hectares of cash crops such as rice and soya. The assumption behind this initiative is that an aging base population of farmers lowers productivity in the agriculture sector.

¶13. The GOG announced a 50 percent subsidy on fertilizer to benefit all crop farming. The GOG is also assessing the viability of a pension scheme for farmers and a fund for farmers and fishermen that would allow them to borrow at lowered rates (bank lending rates are frequently above 25 percent). The GOG also created a cassava cultivation project which plans to increase the production of cassava as a substitute for imported wheat flour.

COMMENT: COST-BENEFIT ANALYSIS NEEDED

¶14. According to USAID sector experts, the GOG's proffered grab-bag of incentives for the agriculture sector has likely not been subjected to a rigorous cost-benefit analysis. Thus, the long-term effectiveness of these various schemes (if they are even implementated) should not be assumed.

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